

Message Text

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ACTION OES-02

INFO OCT-01 ARA-01 ISO-00 /004 W
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P 112100Z AUG 75

FM AMEMBASSY BRASILIA

TO AMCONSUL RIO DE JANEIRO PRIORITY

INFO AMCONSUL SAO PAULO PRIORITY

SECSTATE WASHDC 879

C O N F I D E N T I A L SECSTION 1 OF 2 BRASILIA 6691

FOLLOWING RECD FM SECSTATE DATED 8 AUG BEING REPEATED FOR
YOUR ACTION AND INFO:

QUOTE

STATE 188414/1

E.O. 11652: GDS

TAGS: TECH BR

SUBJECT: US URANIUM ENRICHMENT DEVELOPMENT

REF: (A) BRASILIA 5809, (B) BRASILIA 5763, (C) STATE
151501

1. USG APPRECIATES BRAZILIAN ANXIETY REFLECTED IN REF
A AND B REGARDING STATUS OF CONDITIONAL ENRICHMENT CON-
TRACTS AND MODIFICATION OF BILATERAL AGREEMENT, AND
DESIRES TO REASSURE GOB THAT WE WISH TO RESOLVE THEIR
CONCERNS AS SOON AS POSSIBLE. EMBASSY SHOULD DRAW ON
FOLLOWING INFORMATION IN RESPONDING TO GOB, TO EXTENT
EMBASSY CONSIDERS DESIRABLE PENDING "COORDINATED RESPONSE"
OF GOB REFERRED TO IN PARAGRAPH 2 OF REF A.

2. WITH RESPECT TO CONVERSION OF CONDITIONAL CONTRACTS,
DEPARTMENT, ERDA, AND OTHER CONCERNED AGENCIES HAVE
DEVOTED EXTENSIVE CONSIDERATION TO QUESTION OF DISPOSI-
TION OF ENRICHMENT CAPACITY WHICH MIGHT BE FREED FROM
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COMMITMENT AS RESULT OF CONTRACT CANCELLATION DURING

"OPEN SEASON" SCHEDULED TO END AUGUST 18. THIS CONSIDERATION HAS TAKEN INTO ACCOUNT NOT ONLY BRAZILIAN INQUIRY BUT THE GENERAL QUESTION OF WHETHER CAPACITY SO FREED SHOULD BE USED TO CONVERT SOME FOREIGN CONDITIONAL CON-

TRACTS TO FIRM CONTRACTS. WHILE FINAL DECISION ON THIS POSSIBILITY HAS NOT BEEN MADE, AND WILL DEPEND IN SOME DEGREE ON RESULTS OF "OPEN SEASON" WHICH IS STILL IN PROGRESS, IT NOW APPEARS QUITE UNLIKELY THAT FREED CAPACITY WOULD BE USED FOR CONVERSION OF CONDITIONAL CONTRACTS. FACTORS LEADING TO THIS TENTATIVE CONCLUSION ARE AS FOLLOWS:

A. NUMBER OF CANCELLATIONS DURING "OPEN SEASON" ARE NOT EXPECTED TO BE LARGE. THEREFORE, CANCELLATIONS DO NOT REPRESENT GENERALLY APPLICABLE SOLUTION TO CONVERSION OF CONDITIONAL CONTRACTS. TWO BRAZILIAN CONTRACTS, WHICH ARE FIFTH AND SIXTH IN CHRONOLOGICAL ORDER OF PRIORITY, AFTER TWO KOREAN, ONE JAPANESE, AND ONE GREEK CONTRACT (NOT THIRD IN LINE, AS STATED IN REF A) MIGHT OR MIGHT NOT BE COVERED BY CANCELLATIONS RECEIVED.

B. SINCE CONCLUSION OF CONDITIONAL CONTRACTS LAST YEAR, THE ENRICHMENT SERVICES SITUATION HAS CHANGED IN SEVERAL IMPORTANT RESPECTS. ON THE NEGATIVE SIDE THE U.S. REGULATORY DECISION ON PLUTONIUM RECYCLE HAS BEEN FURTHER DELAYED BY NUCLEAR REGULATORY COMMISSION AND PROJECTIONS OF PROBABLE EXTENT OF ADOPTION OF PLUTONIUM RECYCLE BY BOTH DOMESTIC AND FOREIGN UTILITIES HAVE BEEN SHARPLY REDUCED, BOTH AS A RESULT OF DELAY IN REGULATORY DECISION AND CONSIDERATIONS OF RECYCLE ECONOMICS. AS A RESULT, CURRENT U.S. ENRICHMENT COMMITMENTS CAN BE MET FROM EXISTING FACILITIES ONLY BY USE OF DIFFUSION PLANT TAILS ASSAY WHICH IS FAR HIGHER THAN OPTIMUM, AND WHICH INVOLVES NATURAL URANIUM FEED REQUIREMENTS AT THE VERY LIMIT OF THE APPARENT CAPACITY OF URANIUM MINING INDUSTRY. THUS, ALLOCATION OF ANY CAPACITY RECOVERED BY CANCELLATION OF EXISTING CONTRACTS TO REDUCTION OF TAILS ASSAY AND FEED REQUIREMENTS WILL BENEFIT ALL REMAINING CUSTOMERS (INCLUDING BRAZIL, WHICH HOLDS FIRM CONFIDENTIAL

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CONTRACT FOR ANGRA 1) IN SIGNIFICANT DEGREE, BY REDUCING THE AMOUNT OF COSTLY FEED REQUIRED TO PRODUCE A GIVEN QUANTITY OF ENRICHED URANIUM. THIS EFFECT IS A VERY PRONOUNCED ONE WHEN THE DIFFUSION PLANT IS ALREADY OPERATING AT A HIGH TAILS ASSAY (OVER-FEEDING).

C. MOST IMPORTANTLY, AS REPORTED IN REF (C), PRESIDENTIAL DECISION ON ENRICHMENT CAPACITY EXPANSION

ESTABLISHES A BASIS FOR REOPENING OF CONTRACTING AND PROVIDES MECHANISM FOR FULFILLING ALL CONDITIONAL CONTRACTS. IN THIS REGARD, WE WISH TO REEMPHASIZE UNDERLYING PRESIDENTIAL ASSURANCE AT THE TIME CONDITIONAL CONTRACTS WERE FIRST ANNOUNCED THAT THESE WOULD, IN ANY EVENT, BE MET FROM U.S. ENRICHMENT SOURCES. THIS ASSUR-

ANCE WAS SPECIFICALLY EXTENDED TO ORDERS PLACED WITH PRIVATE ENRICHERS BY PRESIDENTIAL STATEMENT ON ENRICHMENT EXPANSION. (STATE A-455, PAGE 5).

D. IT IS TO BE STRESSED, AS ABOVE BACKGROUND INDICATES, THAT TENTATIVE JUDGEMENT THAT CAPACITY FREED BY CANCELLATION OF FIRM CONTRACTS CANNOT BE APPLIED TO CONVERSION OF CONDITIONAL CONTRACTS IS AN ACROSS-THE-BOARD CONCLUSION BASED ON TECHNICAL GROUNDS, AND IS NOT, REPEAT, NOT LIMITED IN ANY WAY TO CONDITIONAL CONTRACTS WITH BRAZIL. WHILE WE CANNOT OFFER ENCOURAGEMENT ON CONVERSION OF EXISTING CONTRACTS BY THIS MEANS, WE ARE PREPARED TO ASSURE BRAZIL THAT ASSIGNMENTS OF FIRM CONTRACTS FROM U.S. UTILITIES FOR FOREIGNERS ARE BEING APPROVED, SUBJECT TO CONTRACTUAL GUIDELINES, PREVIOUSLY ANNOUNCED. DELIVERY, OF COURSE, WOULD BE SUBJECT TO THE CONCLUSION OF NEW AGREEMENT (SEE PARA 7).

WE RECOGNIZE THAT BRAZILIANS HAVE EXPRESSED RELUCTANCE TO GO ASSIGNMENT ROUTE AND WE LEAVE TO THE EMBASSY'S DISCRETION WHETHER ANOTHER SUGGESTION TO THIS EFFECT IS DESIRABLE. WE WILL ALSO BE FORWARDING TO THE EMBASSY SOONEST, A LIST OF U.S. UTILITIES HOLDING FIRM CONTRACTS. THIS HAS BEEN OFFERED TO GOB SEVERAL TIMES WITHOUT AN OFFER BEING TAKEN UP. THE EMBASSY AT ITS DISCRETION, MAY OFFER OR TRANSMIT A LIST TO GOB RATHER THAN AWAITING

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ITS REQUEST.

E. WE ALSO APPRECIATE THAT BRAZILIANS MAY SEE INCONSISTENCY IN OUR WILLINGNESS TO APPROVE DIRECT TRANSFER OF CONTRACTUAL COMMITMENT, WHILE BEING UNABLE AT PRESENT TO TRANSFER CAPACITY FREED-UP BY "OPEN SEASON". THE BASIC DISTINCTION IS THAT, IN VIEW OF OUR DESIRE TO ESTABLISH THE PRINCIPLE OF TRANSFERABILITY OF FIRM COMMITMENTS AMONG QUALIFIED BUYERS, WE DO NOT WISH TO INTERFERE WITH

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ACTION OES-02

INFO OCT-01 ARA-01 ISO-00 /004 W

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FM AMEMBASSY BRASILIA

TO AMCONSUL RIO DE JANEIRO PRIORITY

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SECSTATE WASHDC 880

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 6691

PRIVATE TRANSFER DEALS, WHICH WE EXPECT TO OCCUR IN SUFFICIENTLY LIMITED NUMBERS FOR THE TIME BEING SO AS NOT TO SERIOUSLY AFFECT ENRICHMENT PLANT OPERATING CONDITIONS. FOR INFORMATION OF GOB, DIRECT TRANSFERS HAVE BEEN APPROVED FOR 5 CONTRACTS INVOLVING JAPAN, FRG, AND THE NETHERLANDS AND A FEW OTHERS ARE IN NEGOTIATION.

F. AS FURTHER ELEMENT IN ASSURING UTILITY OF BRAZIL'S CONDITIONAL CONTRACTS, WE SUGGEST THAT PHRASE IN ARTICLE II.1.B OF THE TWO CONTRACTS WHICH READS: "ON OR BEFORE SEPTEMBER 30, 1975" BE CHANGED TO READ, "ON OR BEFORE JUNE 30, 1976". ERDA PREPARED TO SUBMIT TO FURNAS NECESSARY LETTER AMENDMENTS TO CONTRACTS. AS FURNAS WILL RECOGNIZE, PROPOSED DATE WOULD COINCIDE WITH

RECENTLY AGREED DATES IN CONTRACT ARTICLE XIII RELATIVE TO PLUTONIUM RECYCLE, AND THUS ENSURES THAT CONDITIONAL CONTRACT MAINTAINS ITS VALIDITY FOR A MORE EXTENDED PERIOD WHICH MIGHT BE NECESSARY FOR THE DEVELOPMENT OF A FIRM ARRANGEMENT.

G. WE AGREE WITH THE CONCLUSION OF REF A THAT THE KEY ISSUE IS BILATERAL AGREEMENT, NOT CONDITIONAL FUEL CONTRACTS. WE RECOGNIZE THAT A DELAY IN PROVIDING A NEW DRAFT AGREEMENT TO GOB MAY BE LEADING THEM TO QUESTION U.S. INTENTIONS IN EXPANDING NUCLEAR COOPERATION WITH BRAZIL. FACTS, AS EXPLAINED TO BRAZILIAN EMBASSY REPRESENTATIVES IN THE PAST, ARE THAT DEVELOPMENT OF A

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NEW BRAZILIAN DRAFT WAS CAUGHT UP IN GENERAL REVIEW OF
BILATERAL NUCLEAR COOPERATION IN LIGHT OF HEIGHTENED
NON-PROLIFERATION CONCERNS. IT REMAINS OUR FIRM
INTENTION TO COMPLETE DEVELOPMENT OF POSITION WHICH
WILL ENABLE US TO RESUME NEGOTIATIONS WITH BRAZIL IN
THE VERY NEAR FUTURE. HOWEVER, WHILE WE ARE OF COURSE
PREPARED TO TALK TO BRAZILIAN REPRESENTATIVES AT ANY
TIME, SCHEDULING OF DEFINITIVE DISCUSSIONS SHOULD
AWAIT DEVELOPMENT OF U.S. POSITION. FYI AS DISCUSSED
WITH AMBASSADOR CRIMMINS, PAPER PROPOSING NEGOTIATING
POSITION FOR RESUMPTION OF DISCUSSION WITH BRAZIL IS
ABOUT TO BE CLEARED. WHILE THERE IS NO DOUBT THAT
FRG/BRAZIL ARRANGEMENT IS A SERIOUS COMPLICATING FACTOR,
WE CONTINUE TO BELIEVE AN EXTENSION OF NUCLEAR COOPERA-
TION WITH BRAZIL IS DESIRABLE AND FEASIBLE. END FYI.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: URANIUM, NUCLEAR AGREEMENTS, POLICIES, NUCLEAR REACTORS, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL06691
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750278-0569
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750862/aaaaccei.tel
Line Count: 240
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION OES
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 BRASILIA 5809, 75 BRASILIA 5763
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <01 DEC 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US URANIUM ENRICHMENT DEVELOPMENT
TAGS: TECH, ENRG, BR, US
To: RIO DE JANEIRO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006